



Preserving Homeownership; Preventing Homelessness

Presentation to the Joint Meeting of the Military
and Veterans' Affairs Committee and the
Mortgage Finance Authority Act Oversight
Committee

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TO THE CHAIRS AND MEMBERS OF THE JOINT COMMITTEES:

WHO WE ARE

UNITED SOUTH BROADWAY CORPORATION (USBC) IS A NON-PROFIT COMMUNITY DEVELOPMENT ORGANIZATION INCORPORATED IN 1986 THAT HISTORICALLY HAS WORKED WITHIN OLDER HISTORIC NEIGHBORHOODS OF ALBUQUERQUE TO ADDRESS AFFORDABLE HOUSING OPPORTUNITIES, COMMERCIAL REVITALIZATION, CRIME PREVENTION AND YOUTH DEVELOPMENT.

WITH FORECLOSURES ON THE RISE DUE TO PREDATORY LENDING, USBC HAS INCREASINGLY FOCUSED ON FORECLOSURE COUNSELING AND DEFENSE, AND HAS EXPANDED ITS COVERAGE STATEWIDE. WE OFFER FREE, HUD-CERTIFIED FORECLOSURE COUNSELING TO ALL HOMEOWNERS, REGARDLESS OF INCOME.

WE ALSO HAVE THE ONLY STATEWIDE FORECLOSURE DEFENSE PROJECT IN NEW MEXICO, PRIMARILY FUNDED BY THE NEW MEXICO CIVIL LEGAL SERVICES COMMISSION AND THE NEW MEXICO ATTORNEY GENERAL'S HOMEOWNERSHIP PRESERVATION PROGRAM. IN ADDITION, USBC RECEIVES FUNDING THROUGH THE CITY OF ALBUQUERQUE, NEW MEXICO MORTGAGE FINANCE AUTHORITY AND THE MARGUERITE CASEY FOUNDATION.

BACKGROUND ON THE FORECLOSURE CRISIS

THE FORECLOSURE CRISIS BEGAN IN 2007-2008, AND WAS DRIVEN BY PREDATORY LENDING, IN WHICH BORROWERS WHO QUALIFIED FOR PRIME LOANS WERE

STEERED INTO SUBPRIME CONTRACTS BY BROKERS AND LENDERS WHO WERE FINANCIALLY REWARDED FOR DOING SO. HISTORICALLY HIGH LEVELS OF FORECLOSURE CONTINUE TODAY, DRIVEN PRIMARILY BY JOB LOSS AND UNDEREMPLOYMENT, IN ADDITION TO HIGH MEDICAL BILLS, DOMESTIC VIOLENCE AND DIVORCE.

FORECLOSURE HAS BEEN A MAJOR CONTRIBUTOR TO THE ESCALATION IN HOMELESSNESS IN NEW MEXICO. THE RISE IN HOMELESSNESS IS CONSISTENT WITH THE RISE IN FORECLOSURE ACTIVITY. FOR EXAMPLE, IN 2007 A ONE-NIGHT COUNT OF HOMELESS IN ALBUQUERQUE TALLIED 500 PEOPLE OF ANY AGE. BY 2008, THE HEIGHT OF THE SUBPRIME MORTGAGE MELTDOWN, THERE WERE 2000 KIDS IN APS ALONE WHO WERE HOMELESS. BY THE NEXT YEAR, THE NUMBER OF HOMELESS KIDS SOARED TO 4300. LAST YEAR APS REPORTED 7000 HOMELESS KIDS OF SCHOOL AGE. CUIDANDO LOS NINOS REPORTED 4000 HOMELESS KIDS UNDER AGE SIX. ALL OF THIS TRACKS WITH ESCALATING FORECLOSURES.

FORECLOSURE AND VETERANS

THE VA HEALTH CARE SYSTEM HERE IN ALBUQUERQUE TELLS US THAT FORECLOSURE IS ONE OF THE TOP CIVIL LEGAL NEEDS CITED BY VETERANS. OUR ATTORNEYS AND HOUSING COUNSELORS NOTE THAT VETERANS HAVE SPECIAL NEEDS WHEN IT COMES TO CONTESTING FORECLOSURE. FIRST, SOME VETERAN CLIENTS MAY HAVE CLINICAL OR PSYCHOSOCIAL ISSUES SUCH AS POST TRAUMATIC STRESS DISORDER THAT MAKE IT DIFFICULT FOR THEM TO FOLLOW UP ON PAPERWORK AND COOPERATE FULLY AND INDEPENDENTLY IN AN APPLICATION PROCESS THAT CAN TAKE SEVERAL MONTHS OR LONGER. FOR THIS REASON, WE ARE SEEKING FUNDING TO ADD A SOCIAL WORKER TO OUR STAFF TO ASSIST CLIENTS.

SECOND, UNEMPLOYMENT OR UNDEREMPLOYMENT DUE TO THESE ISSUES MEANS THAT VETERANS MAY NOT HAVE THE INCOME TO QUALIFY FOR LOSS MITIGATION PROGRAMS THAT WOULD KEEP THEM IN THEIR HOMES.

VETERANS, AS WELL AS OUR CLIENTS IN GENERAL, OFTEN DON'T KNOW THEIR RIGHTS AS HOMEOWNERS, AND ONE OF THE MOST IMPORTANT ROLES OF A HOUSING COUNSELOR IS TO ADVISE THEM OF THESE RIGHTS. HERE IN NEW MEXICO WE ARE FORTUNATE TO HAVE A JUDICIAL FORECLOSURE PROCESS THAT REQUIRES LENDERS TO PROVE THEIR RIGHT TO FORECLOSE IN COURT. LENDERS CANNOT REPOSSESS HOMES WITHOUT DUE PROCESS, AS THEY WOULD A CAR. THE PROCESS ALLOWS HOMEOWNERS TO CONTEST THE FORECLOSURE, GIVES THEM ADEQUATE TIME TO WORK OUT A REPAYMENT PLAN WITH THEIR LENDERS, AND INCREASES THE LIKELIHOOD THEY WILL STAY IN THEIR HOMES.

THE ADVANTAGES TO NEW MEXICO ARE SIGNIFICANT. ACCORDING TO THE NATIONAL BUREAU OF ECONOMIC RESEARCH, STATES WITH A JUDICIAL FORECLOSURE PROCESS HAVE LOWER LEVELS OF FORECLOSURE THAN NON-JUDICIAL STATES. THE CENTER FOR RESPONSIBLE LENDING CALCULATES THAT EACH FORECLOSURE, ON AVERAGE, LEADS TO TOTAL HOME VALUE LOSSES OF ABOUT \$70,000 ACROSS THE SURROUNDING NEIGHBORHOOD, DUE TO DISTRESS SALES OF FORECLOSED PROPERTIES, BLIGHT, VANDALISM, AND INCREASES IN CRIME.

BY THAT CALCULUS, IF ALL 5240 OF THE HOMES IN NEW MEXICO CURRENTLY IN THE PROCESS WERE FORECLOSED AND SOLD AT AUCTION AS DISTRESSED PROPERTIES, THE LOSS IN PROPERTY VALUES IN THE SURROUNDING NEIGHBORHOODS WOULD EQUAL NEARLY \$367 MILLION. THAT DOESN'T EVEN TAKE INTO ACCOUNT THE LOWER PROPERTY TAXES COLLECTED ON DISTRESSED PROPERTIES.

WHAT KIND OF HELP IS AVAILABLE TO VETERANS FACING FORECLOSURE?

THE PROGRAMS AVAILABLE TO VETERANS ARE GENERALLY THE SAME AS THOSE OFFERED TO ALL HOMEOWNERS. ACTIVE-DUTY SERVICEMEMBERS QUALIFY FOR ADDITIONAL PROTECTIONS THROUGH THE SERVICEMEMBERS CIVIL RELIEF ACT, SUCH AS REDUCED MORTGAGE INTEREST RATES AND A DELAY IN FORECLOSURE PROCEEDINGS.

IF A VETERAN IS BEHIND ON MORTGAGE PAYMENTS, MOST LENDERS OFFER SOME VERSION OF THE FOLLOWING PLANS:

- 1) SPECIAL FOREBEARANCE: THE LENDER MAY OFFER A TEMPORARY REDUCTION OR SUSPENSION OF PAYMENTS TO ALLOW THE VETERAN TIME TO OVERCOME THE PROBLEM THAT REDUCED HER OR HIS INCOME. THE HOMEOWNER MAY BE OFFERED A PAYMENT PLAN TO PAY BACK THE MISSED PAYMENTS A LITTLE AT A TIME UNTIL THEY ARE CAUGHT UP.
- 2) MORTGAGE MODIFICATION: THIS IS A PERMANENT CHANGE TO THE LOAN TERMS SO THAT THE OVERDUE PAYMENTS MAY BE ADDED TO THE LOAN BALANCE. THE INTEREST RATE MAY BE CHANGED OR THE NUMBER OF YEARS REQUIRED TO PAY OFF THE LOAN MAY BE EXTENDED.
- 3) PARTIAL CLAIM/ADVANCE CLAIM: THE BORROWER RECEIVES A SECOND LOAN IN AN AMOUNT NECESSARY TO BRING THE DELINQUENT LOAN CURRENT. THE LOAN IS INTEREST FREE AND DOES NOT NEED TO BE REPAYED UNTIL THE FIRST MORTGAGE IS PAID OFF OR THE HOME IS SOLD.
- 4) FHA-HOME AFFORDABLE MODIFICATION PROGRAM (HAMP): IF THE VETERAN IS NOT UNEMPLOYED, BUT STILL IS STRUGGLING TO MAKE MORTGAGE PAYMENTS, HE OR SHE MAY BE ELIGIBLE FOR THE HOME AFFORDABLE MODIFICATION PROGRAM. HAMP MAY LOWER THE MONTHLY MORTGAGE PAYMENTS IN ORDER TO MAKE THEM MORE AFFORDABLE AND SUSTAINABLE FOR THE LONG-TERM.

- 5) PRINCIPAL REDUCTION: IF THE VETERAN'S HOME IS CURRENTLY WORTH SIGNIFICANTLY LESS THAN WHAT IS OWED ON IT, THE FEDERAL MAKING HOME AFFORDABLE PROGRAM (MHA) PRINCIPAL REDUCTION ALTERNATIVE (PRA) IS DESIGNED TO HELP BY ENCOURAGING MORTGAGE SERVICERS AND INVESTORS TO REDUCE THE AMOUNT OWED ON THE HOME.

HOW HOUSING COUNSELING HELPS

FREE, HUD-CERTIFIED HOUSING COUNSELING IS AVAILABLE TO HELP VETERANS APPLY FOR THESE PROGRAMS. COUNSELING SIGNIFICANTLY IMPROVES THE CHANCES THAT HOMEOWNERS WILL BE ABLE TO CATCH UP ON THEIR PAYMENTS AND KEEP THEIR HOMES:

HOUSING COUNSELING INCREASES BY 200 PERCENT THE LIKELIHOOD THAT THE HOMEOWNER WILL BE GRANTED A LOAN MODIFICATION. (FEDERAL RESERVE BOARD OF GOVERNORS PRESENTATION, 2011)

COUNSELED BORROWERS RECEIVED MORE FAVORABLE TERMS ON THEIR LOAN MODIFICATIONS COMPARED TO UNCOUNSELED BORROWERS (ON AVERAGE, \$110 LOWER MONTHLY PAYMENT AND FIVE BASIS POINTS LOWER INTEREST RATE). (FEDERAL RESERVE BOARD OF GOVERNORS PRESENTATION, 2011)

HOMEOWNERS WHO RECEIVE COUNSELING ARE 1.7 TIMES MORE LIKELY TO CURE THEIR FORECLOSURE THAN THOSE WHO DO NOT RECEIVE COUNSELING. (URBAN INSTITUTE, 2010)

HOMEOWNERS ALREADY SERIOUSLY DELINQUENT ON THEIR LOANS WERE 60% MORE LIKELY TO AVOID FORECLOSURE AFTER MEETING WITH A COUNSELOR. (URBAN INSTITUTE STUDY, 2009)

HOMEOWNERS WHO RECEIVED MODIFIED LOANS AFTER BEING COUNSELED HAD THEIR MORTGAGE PAYMENTS LOWERED AN ADDITIONAL \$267 MORE THAN THOSE WHO GOT MODIFICATIONS WITHOUT BEING COUNSELED. (URBAN INSTITUTE, 2010)

THANK YOU.